

Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 ADP-00 AID-20 EB-11 NSC-10 RSC-01

CIEP-02 SS-15 STR-08 OMB-01 CEA-02 CIAE-00 FRB-02

INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01 L-03 H-03

PA-03 PRS-01 USIA-15 ABF-01 FSE-00 RSR-01 AGR-20 /192 W

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R 201720Z JUL 73

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 2797

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

TREASURY DEPT WASHDC

USDOC WASHDC

UNCLAS SECTION 01 OF 03 LONDON 08421

DEPARTMENT FOR FRB

E.O. 11652: N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS: WEEK ENDING JULY 20

BEGIN SUMMARY: STERLING WEAKENED PROGRESSIVELY AGAINST

THE DOLLAR DURING THE WEEK, CLOSING THURSDAY AT

\$2.5340, DOWN ALMOST ONE CENT FROM THE PREVIOUS

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THURSDAY. ON A WEIGHTED AVERAGE, STERLING DECLINED

ABOUT 17 PERCENT FROM SMITHSONIAN RATES AT WEEK'S END. GOLD CLOSED AT \$115.00 ON JULY 19, DOWN \$5.75 FROM THE PREVIOUS THURSDAY. THE BANK OF ENGLAND CALLS FOR SPECIAL DEPOSITS FROM THE CLEARING BANKS AND ANNOUNCEMENT OF MEASURES THAT IN EFFECT ENABLE DISCOUNT HOUSES TO WITHDRAW MANDATORY SUPPORT OF THE TREASURY BILL MARKET SIGNALLED A SHIFT TOWARDS HIGHER INTEREST RATES. THE MINIMUM LENDING RATE JUMPED TO 9 PERCENT. WEEKLY WAGES SHOWED AN INCREASED RATE OF GROWTH AND UNEMPLOYMENT AND UNFILLED VACANCY FIGURES INDICATED STILL FURTHER TIGHTNESS IN THE LABOR MARKET. END SUMMARY

1. ON JULY 19 THE BANK OF ENGLAND (BOE) MADE A FURTHER ONE PERCENT CALL FOR SPECIAL DEPOSITS FROM THE BANKING SYSTEM. THESE SPECIAL DEPOSITS ARE TO BE MADE IN TWO EQUAL STAGES ON AUGUST 6 AND AUGUST 15. THE TOTAL OF SPECIAL DEPOSITS WITH THE BANK OF ENGLAND SHOULD RISE BY ANOTHER 260 MILLION POUNDS, TO REACH A TOTAL OF JUST OVER 1.3 BILLION POUNDS OR FOUR PERCENT OF RELEVANT DEPOSITS, THE HIGHEST LEVEL SINCE THE SYSTEM WAS INTRODUCED IN 1960. THIS MOVE WILL FURTHER REDUCE THE ASSET RATIO OF THE CLEARING BANKS, CURRENTLY ABOUT 14.2 PERCENT, COMPARED WITH THE MINIMUM REQUIRED RATIO OF 12.5 PERCENT. THE MOVE IS BEING MADE PRIMARILY TO STRENGTHEN THE STERLING EXCHANGE RATE BY TIGHTENING DOMESTIC INTEREST RATES. A BANK OF ENGLAND OFFICIAL STATEMENT NOTED THAT RECENTLY SHORT-TERM INTEREST RATES ABROAD HAVE RISEN MARKEDLY WHILE THOSE IN THE UK HAVE FALLEN. IT WILL ALSO HAVE A RESTRAINING EFFECT ON THE BOOMING ECONOMY. IN A RELATED MEASURE, THE BOE ABOLISHED A REQUIREMENT THAT LONDON DISCOUNT HOUSES HOLD AT LEAST FIFTY PERCENT OF BORROWED FUNDS IN DEFINED CATEGORIES OF PUBLIC SECTOR DEBT. THIS MEASURE WILL WITHDRAW MUCH OF THE AUTOMATIC SUPPORT THAT THE DISCOUNT HOUSES HAVE GIVEN TO THE TREASURY BILL MARKET. THE EXPECTED RESULT IS UPWARD PRESSURE ON UK TREASURY BILL RATES. PREDICTABLY, TREASURY BILL RATES ROSE ON JULY 20 AND THE BOE'S MINIMUM LENDING RATE JUMPED TO 9 PERCENT ON JULY 20, UP 1.50 PERCENT FROM THE PREVIOUS WEEK.

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2. THE BUILDING SOCIETY ASSOCIATION (BSA) ON JULY 13 AGREED THAT THE MORTGAGE RATE WOULD REMAIN AT 9.5 PERCENT. THERE HAD BEEN EXPECTATIONS THAT THE RATE WOULD BE INCREASED TO 10 PERCENT. INSTEAD, THE BSA AGREED FROM SEPTEMBER ONWARDS, IT WOULD LOWER THE RATE OF TAX FREE INTEREST PAID TO SAVERS FROM THE CURRENT 6.75 PERCENT TO 6.4 PERCENT. THE REDUCED FIGURE STILL

GROSSES UP TO ROUGHLY 9.14 PERCENT FOR THE AVERAGE TAXPAYER. CHANCELLOR BARBER INDICATED HE WAS VERY PLEASED WITH THE DECISION. IN LIGHT OF CURRENT BANK OF ENGLAND CHANGES OUTLINED ABOVE, THERE IS THINKING IN THE CITY THAT THE DECISION TO HOLD THE RATE AT 9.5 PERCENT WILL HAVE TO BE REVIEWED.

3. THERE WAS A MAJOR DEBATE IN PARLIAMENT ON INFLATION. DETAILS AND COMMENTARY BY SEPARATE TELEGRAM.

4. THIS MONTH'S UNEMPLOYMENT FIGURES SHOW A FURTHER DECLINE IN THE RATE OF UNEMPLOYED. AS OF JULY 9, ON

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PRS-01 PA-03 USIA-15 ABF-01 FSE-00 RSR-01 AGR-20 /192 W

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R 201720Z JUL 73

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 2798

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

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AMEMBASSY DUBLIN

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A SEASONALLY ADJUSTED BASIS, UNEMPLOYMENT IN GREAT BRITAIN HAD FALLEN BY 11,800 TO 578,200, RESULTING IN A 2.5 PERCENT UNEMPLOYMENT FIGURE. (LAST MONTH'S FIGURE WAS 2.6 PERCENT.) THE TIGHTENING IN THE LABOR MARKET IS ALSO EVIDENCED BY AN INCREASE IN THE NUMBER OF UNFILLED VACANCIES. THIS RUNS COUNTER TO TREND. NORMALLY, THE CHANGE IN THE NUMBER OF VACANCIES FOR ADULTS TO BE EXPECTED IN GREAT BRITAIN THIS MONTH DUE TO NORMAL SEASONAL FACTORS WOULD SHOW A DECREASE OF 5,100.
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IN FACT, THERE WAS AN INCREASE OF 13,200. ACCORDINGLY, THE NUMBER OF VACANCIES FOR ADULTS, AFTER SEASONAL ADJUSTMENT, INCREASED BY 18,300 TO 325,200, THE HIGHEST LEVEL IN ROUGHLY SEVEN YEARS.

5. BASIC WEEKLY WAGES IN THE UK ROSE BY 1.7 PERCENT DURING JUNE, BRINGING THE INCREASE DURING THE FIRST THREE MONTHS OF PHASE II OF THE GOVERNMENT'S PRICES AND INCOMES POLICY TO NEARLY 5 PERCENT. AVERAGE EARNINGS FOR MAY SHOWED A RISE OF 1.8 PERCENT ABOVE APRIL, MAKING THE INCREASE IN THE FIRST TWO MONTHS OF PHASE II 3.7 PERCENT. IN INDEX TERMS, BASIC WEEKLY RATES ROSE FROM 112.7 TO 114.7 BETWEEN MAY AND JUNE (JULY 1972 100) AND AVERAGE EARNINGS FROM 146.6 TO 149.3 BETWEEN APRIL AND MAY (JANUARY 1970 100). IN JUNE, BASIC WEEKLY WAGES ARE RUNNING 15.4 PERCENT ABOVE THE LEVEL OF 12 MONTHS EARLIER (COMPARED WITH 14.8 PERCENT IN MAY) AND AVERAGE EARNINGS IN MAY WERE 14.2 PERCENT ABOVE THE MAY 1972 FIGURE (COMPARED WITH 13.4 PERCENT IN APRIL)

6. INQUIRIES BY THE FINANCIAL TIMES GIVE SOME EVIDENCE FROM MANUFACTURERS AND RETAILERS THAT THE CONSUMER BOOM MAY HAVE PEAKED. TO A LARGE EXTENT, THIS IS BASED ON REPORTS THAT AUTO SALES, WHICH INCREASED FIVE PERCENT IN THE FIRST HALF OF THIS YEAR OVER THE FIRST HALF OF 72, DECLINED SLIGHTLY DURING JUNE AND THAT PENT UP DEMAND FOR CARS, STIFLED BY TIGHT CREDIT AND HIGH TAXES DURING 1969-70, MAY BE SATISFIED. THE INDUSTRY EXPECTS SALES TO SLACKEN. SALES OF COLOR TV SETS ARE LEVELLING OFF, AND THERE HAS BEEN A DROP OFF IN RETAIL SALES OF TEXTILES AND CLOTHING. HOWEVER, LEADING MANUFACTURERS AND RETAILERS OF DOMESTIC AP-

PLIANCES INDICATE NO SIGNS OF A FALLING BACK IN DEMAND FROM THE HIGH LEVEL ESTABLISHED BEFORE THE INTRODUCTION OF VAT. INDEED, DOMESTIC APPLIANCE INDUSTRIES SAY THEY WOULD WELCOME SOME EASING OF DEMAND.

7. THE INVESTMENT DOLLAR PREMIUM CONTINUES TO CREEP UPWARDS, CURRENTLY AT 28 PERCENT BASED ON AN EXCHANGE UNCLASSIFIED

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RATE OF \$2.60. IT HAS CLIMBED FROM A LOW OF AROUND 10 PERCENT IN MARCH. THE EARLIER LOWS ARE DESCRIBED AS PARTLY TECHNICAL, RESULTING FROM AN OUTFLOW OF UK FUNDS FROM THE HONG KONG MARKET. THE RENEWED RISE REFLECTS ATTEMPTS IN RECENT WEEKS TO PLACE ASSETS IN GERMANY AND EUROPE AND, MORE GENERALLY, A SUSPICION THAT THE STERLING EXCHANGE RATE WILL DECLINE FURTHER DURING COMING MONTHS, WITH AN ATTENDANT DESIRE BY UK RESIDENTS TO SHIFT FUNDS OUT OF STERLING.

8. THE LONDON AND CAMBRIDGE ECONOMIC BULLETIN CONSIDERS THAT THE BUDGET DEFICITS RUNNING AT ALMOST 8 PERCENT OF GNP (4.4 BILLION POUNDS) SHOULD BE REDUCED BY 500 MILLION POUNDS IN ORDER TO STABILIZE THE ECONOMY AND CHECK INFLATION. OTHERWISE, SERIOUS FURTHER DETERIORATION IN THE BALANCE OF PAYMENTS COULD LEAD TO A BALANCE OF PAYMENTS DEFICIT ON CURRENT ACCOUNT OF ROUGHLY 2 BILLION POUNDS AND FURTHER DOWNWARD PRESSURE ON THE EXCHANGE RATE. (DETAILS BY AIRGRAM.)

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PA-03 PRS-01 USIA-15 ABF-01 FSE-00 AGR-20 RSR-01 /192 W

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R 201733Z JUL 73

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 2799

INFO AMEMBASSY BERN

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9. DISCOUNTS ON STERLING NARROWED PROGRESSIVELY UNTIL WEDNESDAY, WITH SOME WIDENING TOWARDS THE END OF THE WEEK.

*	7/12	7/L9	CHANGE
1 MONTH	0.42-1/2	0.22	DOWN 0.20-1/2
3 MONTHS	1.54-1/2	0.95	DOWN 0.59-1/2
6 MONTHS	3.05	2.37	DOWN 0.68
* (ALL FIGURES IN CENTS)			

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10. LOCAL AUTHORITY RATES INCREASED PROGRESSIVELY AND SHARPLY DURING THE WEEK.

*	7/12	7/19	CHANGE
1 MONTH	7-7/16	8-7/8	UP 1-7/16
3 MONTHS	8-1/4	9-1/16	UP 13/16
6 MONTHS	8-11/16	9-9/16	UP 14/16

11. EURODOLLAR RATES ALSO SHOWED APPRECIABLE GAINS.

*	7/12	7/19	CHANGE
1 MONTH	9-3/4	10-1/2	UP 3/4
3 MONTHS	9-3/4	10-3/4	UP 1
6 MONTHS	9-7/8	10-7/8	UP 1

12. GOLD CLOSED AT \$115.00 ON THURSDAY,

REFLECTING PROFIT TAKING AND UNCERTAINTY ABOUT WHAT
MEASURES CENTRAL BANKS MIGHT BE TAKING IN THE MARKET.

13. THE MINIMUM LENDING RATE INCREASED SHARPLY TO
9 PERCENT, UP FROM 7-1/2 PERCENT LAST WEEK.

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Message Attributes

Automatic Decaptioning: X
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Copy: SINGLE
Draft Date: 20 JUL 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
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Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Enclosure: n/a
Executive Order: N/A
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Review Event:
Review Exemptions: n/a
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30 JUN 2005

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Review Referrals: n/a
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Review Withdrawn Fields: n/a
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Subject: ECONOMIC DEVELOPMENTS: WEEK ENDING JULY 20 BEGIN SUMMARY: STERLING WEAKENED PROGRESSIVELY AGAINST
TAGS: ECON, UK
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005